

Message Text

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ACTION EA-12

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C O N F I D E N T I A L HONG KONG 0774

NOFORN

E.O. 11652: GDS

TAGS: EMIN, ENRG, ETRD, CH, HK, US

SUBJECT: PRC OFFERS TO SUPPLY 3.6 MILLION TONS PER YEAR OF COAL
TO EXXON'S PLANNED THERMAL ELECTRIC POWER PLANT IN HONG KONG

1. SUMMARY: HONG KONG'S PRC-CONTROLLED CHINA RESOURCES CORPORATION HAS MADE A FIRM COMMITMENT TO EXXON TO SUPPLY 3.6 MILLION METRIC TONS OF COAL PER YEAR TO THE AMERICAN FIRM'S PLANNED 1,400 MW (MEGAWATT) THERMO-ELECTRIC POWER PLANT AT CASTLE PEAK IN KOWLOON. NEGOTIATIONS BETWEEN THE CHINESE, EXXON AND EXXON'S HONG KONG PARTNER, CHINA LIGHT AND POWER COMPANY, WILL BEGIN IN LATE FEBRUARY 1978. IF SUCCESSFULLY CONCLUDED, THE AGREEMENT SHOULD HAVE A VERY FAVORABLE IMPACT ON THE INVESTMENT CLIMATE IN HONG KONG, AS THE CHINESE HAVE AGREED TO SUPPLY COAL TO THE PLANT "THROUGH 1988 AND BEYOND." END SUMMARY.

2. IN THE SPRING OF 1977, EXXON CONTACTED CHINESE RESOURCES TO INQUIRE IF THE PRC COULD SUPPLY COAL TO EXXON'S NEW PLANT. AT THAT TIME, THE CHINESE INFORMED THE AMERICAN COMPANY
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THEY WOULD NOT HAVE SUFFICIENT SUPPLIES. LATER IN 1977, CHINESE RESOURCES DEPUTY GENERAL MANAGER, LI CHING-TANG ASKED EXXON TO RESUBMIT ITS ORDER AND TO PROVIDE CHINA RESOURCES WITH DETAILS. IN PEKING DURING DECEMBER, AN EXXON DELEGATION WAS INFORMED BY THE MANAGER OF THE EXPORT DEPARTMENT AT MINMETAL (THE PRC FOREIGN TRADE COMPANY WHICH HANDLES METALS AND MINERALS) THAT CHINA WOULD

LIKE TO SUPPLY THE COAL TO THE NEW HONG KONG PLANT. EXXON WAS TOLD IT COULD INSPECT SUPPLIER MINES AND OBTAIN SAMPLES.

2. CHINA RESOURCES RECENTLY INFORMED EXXON (HONG KONG) THAT CHINA WOULD LIKE TO SUPPLY 100 PERCENT OF THE PLANT'S COAL. CHINA RESOURCES QUARANTEED THERE WOULD BE NO PROBLEM WITH QUALITY THAT CHINA "COULD MEET ALL THE PLANT'S REQUIREMENTS" THROUGH 1988 "AND COULD SUPPLY BEYOND THAT PERIOD." THE CHINESE PROPOSED THE FOLLOWING SCHEDULE OF DELIVERY.

YEAR	MILLION METRIC TONS
1982	0.7
1983	1.6
1984	1.8
1985	2.5
1986	2.7
1987	3.4
1988	3.6

THE CHINESE PROVIDED EXXON (HONG KONG) AND ITS HONG KONG PARTNER WITH A VARIETY OF DATA ON COAL FROM THE PRC'S HUAIBEI AND TATUNG MINES.

3. BOTH EXXON AND CHINA LIFHT AND POWER WOULD PREFER MULTIPLE SOURCING FOR CASTLE PEAK'S FULL NEEDS. PEKING'S CONFIDENTIAL

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OFFER CAUGHT BOTH FIRMS OFF GUARD AND THEY ASKED TO POSTPONE NEGOTIATIONS UNTIL LATE FEBRUARY. THE CHINESE WANTED TO START DISCUSSIONS IMMEDIATELY.

4. THE CASTLE PEAK PROJECT IS A 1,400 MW DUEL PETROLEUM AND COAL-FIRED THERMOELECTRIC POWER PLANT. THE PROJECT, WHICH IS ESTIMATED TO COST US\$700-800 MILLION, IS TO BE CARRIED OUT IN TWO STAGES ENDING IN 1982 AND 1987. THE PLANT WILL CONSIST OF FOUR 350 MW UNITS. THE PROJECT WILL BE MANAGED BY KOWLOON PENINSULA ELECTRIC COMPANY, LTD., WHICH IS JOINTLY OWNED BY EXXON AND CHINA LIGHT AND POWER. EXXON EXPECTS THE HONG KONG GOVERNMENT TO APPROVE THE PROJECT IN THE NEAR FUTRE, AND HAS ALREADY BEGUN TO PURCHASE EQUIPMENT.

5. COMMENT: THE OFFER REFLECTS CHINESE HOPES THAT COAL EXPORTS WILL PLAY A MAJOR ROLE IN EARNING FOREIGN EXCHANGE TO PAY FOR FOREIGN TECHNOLOG. CHINESE COOPERATION WITH A LARGE AMERICAN FIRM TO HELP MEET HONG KONG'S FUTURE ENERGY NEEDS WOULD PROVIDE A STRONG BOOST TO INVESTOR CONFIDENCE IN THE COLONY'S FUTURE. IF SUCCESSFULLY CONCLUDED, THIS WOULD BE THE SINGLE LARGEST VENTURE

BETWEEN THE CHINESE AND FOREIGN BUSINESS INTERESTS
IN HONG KONG.

6. THIS INFORMATION IS COMMERCIALLY VERY SENSITIVE,
AND SHOULD NOT BE DISCUSSED OUTSIDE THE USG.
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